COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4690-01
BILL NO.: HB 2129
SUBJECT: Energy; Housing; Revenue Department; Taxation and Revenue.
TYPE: Original
DATE: March 27, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	($46,115)	$0 to (unknown)	$0 to (unknown)
Total Estimated Net Effect on All State Funds*	**($46,115)**	**$0 to (Unknown)**	**$0 to (Unknown)**

*** Estimated to be over $100,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses
This fiscal note contains 7 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state the proposal enacts several new sections;

Section 640.875
This section defines the qualified expenditures and establishes a tax credit for individual taxpayers that place solar electric generating equipment in service at their principal residence. The credit is non-refundable, but can be carried forward for five years. The credit is for an amount equal to the lesser of 25% of the qualified expenditures or $3,750, to the extent these expenditures are included in the taxpayer's federal adjusted gross income. The Department of Natural Resources is responsible for the certification of the credit and will provide DOR with a certification on each taxpayer. The taxpayer is required to submit certification with the tax return.

Section 640.878
This section defines the qualified expenditures and establishes a credit for an individual taxpayer who places in their residence renewable energy equipment. The credit is for an amount equal to the lesser of 25% of the expenditures or $2,000. When applying the credit to businesses, the credit is an amount equal to the lessor of 35% of the business's qualified expenditures or $250,000. The tax credit is non-refundable, but may be carried forward for five years. The Department of Natural Resources is responsible for the certification of the credit and will submit certification to the taxpayer and to the Department of Revenue. The taxpayer is required to submit certification with income tax return when filing.

Section 640.881
This section defines the qualified expenditures and establishes a tax credit for individual taxpayers who makes energy efficiency improvements to their principal residence. The credit is non-refundable, but can be carried forward for five years. The credit is for an amount equal to the lesser of 25% of the taxpayer's qualified costs or $2,000, to the extent these expenditures are included in the taxpayer's federal adjusted gross income.

This legislation also establishes a tax credit for individual taxpayers who makes energy efficiency improvements to their primary residence and uses the services of a certified home energy rating technician. This credit is a one-time, non-refundable tax credit for an amount equal to the lesser of the taxpayer's costs for the technician or $250.

Both credits will be certified by the Department of Natural Resources, who will provide DOR with a certification on each taxpayer. The taxpayer is required to submit certification with the tax return.

ASSUMPTION (continued)

Section 640.884
This section defines the qualified expenditures and establishes a credit for taxpayers that make energy efficiency improvements to eligible buildings owed by taxpayer. The credit is non-refundable, but may be carried forward for five years. The credit is in the amount equal to the lesser of 25% of the costs or $2,000.

The section also establishes a tax credit for a taxpayer's cost of a technical energy study performed by a licensed professional architect or engineer. The credit is a one-time non-refundable credit and is equal to the lesser of 10% of the costs incurred or $50,000.

Both credits will be certified by the Department of Natural Resources, who will provide DOR with a certification on each taxpayer. The taxpayer is required to submit certification with the tax return. Both credits can be carried forward to the next five succeeding tax years.

Section 640.887
This section establishes a net energy metering service for electric service providers in this state that offers residential and small commercial services. The Public Service Commission and the Department of Natural Resources will monitor this section.

The DOR states the number of taxpayers eligible for these tax credits is unknown at this time. The Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee ($8.00 an hour) for every 130,000 returns filed (key entry) and one Tax Processing Tech I for every 2,000 credits claimed each year (processing). One Tax Processing Tech I will also be needed for every 3,000 additional pieces of correspondence and every 30,000 additional errors generated by this legislation. The Division of Taxation, Business Tax Bureau, will need one Tax Processing Tech I for every 3,680 credits claimed.

The DOR assumes this legislation will also require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor, a cost of $41,617. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $4,498 is requested for implementation costs and $451 is requested for on-going costs.

Oversight assumes the Department of Revenue could request additional FTE to process the additional tax credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to only have programming costs from this proposal.

ASSUMPTION (continued)

Officials from the **Department of Economic Development, Public Service Commission (PSC)** state Section 640.887 of this proposal allows tax credits for electric generating equipment powered by sun, wind, waste, agricultural crops and residues, refuse-derived fuel, wood, geothermal (not including fuel cells), small hydro, fuel cells using renewable energy or a farm system anaerobic digestion system of agricultural wastes. Net energy metering is allowed for the above (a single meter that runs both ways). Requires every electric service provider to use a standard contract or tariff approved by the PSC for providing net energy metering. Generation by these methods is limited to the lesser of 10% of the state's peak electricity demands or 10,000kw. Allows the PSC to adopt by regulation additional control and testing requirements for eligible customer-generators as the PSC deems necessary to protect public safety and to promote system reliability. Not later than January 31, 2006, the PSC in consultation with the Department of Natural Resources, shall prepare and submit to the President Pro Tem of the Senate, the Speaker of the House of Representatives, and the Governor a report on Missouri's experience with net metering and offer recommendations regarding the appropriateness of increasing the cap on net metering.

The PSC assumes the need for one (1) total FTE to implement this proposal. The PSC states that they will require ½ of an FTE as a Utility Regulatory Engineer I (at $54,840 annually) and ½ of an FTE as a Rate & Tariff Examiner I (at $34,992 annually). Duties would include inspections of parallel operations, testing for safety and system reliability, examining tariffs or standard contracts that every electric service provider (including 81 municipals and 40 cooperatives) must submit to the Commission for approval, and monitor the amount of generation so it does not exceed the limit in the proposal.

Oversight assumes the PSC can implement this proposal with existing resources.

Officials from the **Department of Natural Resources (DNR)** assume this proposal would require applicants for the proposed tax credits to submit initial plans to their department for review before installation (including proof that the equipment is expected to remain in use for at least 5 years) as well as upon project completion. The DNR assumes these activities could be performed with existing resources.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Natural Resource's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 22 new pages of regulations in the Code of State Regulations at a cost of $26.50 per page, and 33 new pages in the Missouri Register at a cost of $22.50 per page. Costs due to this proposal are estimated to be $1,326, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent

ASSUMPTION (continued)

fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal; however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Oversight assumes the tax credits will be used beginning with FY 2002 and the amount of the tax credits that will be authorized and issued is unknown, but expected to exceed $100,000.

FISCAL IMPACT - State Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
Costs - Department of Revenue Programming expenses	($46,115)	$0	$0
Costs - Tax credit for solar generating equipment (640.875)	$0	$0 to (unknown)	$0 to (unknown)
Costs - Tax credit for renewable energy equipment (640.878)	$0	$0 to (unknown)	$0 to (unknown)
Costs - Tax credit for energy efficient improvements to primary residence (640.881)	$0	$0 to (unknown)	$0 to (unknown)
Costs - Tax credit for energy efficient improvements to eligible	$0	$0 to	$0 to

building (640.884)		(unknown)	(unknown)
Costs - Net Energy metering (640.887)	$0	$0 to (unknown)	$0 to (unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($46,115)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - Local Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
	$0	$0	$0

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses that are eligible to receive tax credits from the Department of Natural Resources would be expected as a result of this proposal. The proposal would also have a direct fiscal impact to small businesses that produce or sell electricity generating equipment from renewable energy sources.

DESCRIPTION

Beginning January 1, 2001, this bill establishes several income tax credits for installing equipment that generates electricity from renewable energy sources and for making improvements that increase energy efficiency. All credits are non-refundable and may be carried forward for up to 5 years.

Homeowners may apply for a credit of the lesser of $3,750 or 25% of the costs of installing solar electric generating equipment in their principal residence, or a credit of the lesser of $2,000 or 25% of the costs of installing electric generating equipment that uses energy from renewable sources in their principal residence. Business owners are eligible for a credit of the lesser of $250,000 or 35% of the costs of installing electric generating equipment that uses energy from renewable sources. To claim these credits, the applicant must submit plans to the Department of Natural Resources (DNR) before installation, including proof that the equipment is expected to remain in use for at least 5 years, and file a second application with DNR upon project completion, including proof that the building will remain in use as a principal residence or business.

Homeowners are also eligible for a credit of the lesser of $2,000 or 25% of the costs of making improvements in heating, cooling, lighting, insulation, or other systems that increase the energy efficiency of their principal residence. The improvements must increase the efficiency of an existing residence by at least 25% or, for a new residence, exceed the requirements of the latest Model Energy Code by at least 30%, as determined by a certified home energy rating technician. Single family homes and individual residences in multi-dwelling structures are eligible. To claim this credit, homeowners must submit an application to DNR with certification of the efficiency improvements. Those who qualify for this credit may also apply for a one-time credit of the lesser of $250 or the costs of the services of a certified home energy rating technician.

DESCRIPTION (continued)

Owners of commercial buildings and residential structures of more than 3 stories are eligible for a credit of the lesser of $2,000 or 25% of the costs of improvements in heating, cooling, lighting, insulation, or other systems that increase the energy efficiency of an existing structure by at least 25%, as determined by a nationally recognized energy analysis process, or, for a new structure, exceed the requirements of the latest applicable building energy code by at least 30%, as determined by a licensed professional architect or engineer. To claim this credit, owners must submit an application to DNR with verification of the efficiency improvements. Those who qualify for this credit may also apply for a one-time credit of the lesser of $50,000 or 10% of the costs of a technical energy study by an architect or engineer.

The bill also requires electric service companies to provide two-directional net energy metering to customers with electric generating systems that are powered by renewable energy sources and capable of producing no more than 100 kilowatts. A standard net metering contract must be approved by the Public Service Commission and allow customers to feed excess electricity back into the power grid to offset consumption costs over an annual billing period. Net metering will be provided on a first-come, first-served basis until statewide capacity equals the lesser of 10,000 kilowatts or 10% of the state's peak electricity demand. By January 1, 2006, the commission, in consultation with DNR, must submit a progress report to the General Assembly and the Governor and offer recommendations on increasing the amount of allowable net metering.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Public Service Commission

RAS:LR:OD:005 (9-94)

Department of Revenue
Department of Natural Resources

Office of the Secretary of State

Jeanne Jarrett, CPA
Director
March 27, 2000